HIBISCUS CHILDREN'S CENTER, INC.
AND AFFILIATE,
HIBISCUS CHILDREN'S CENTER FOUNDATION, INC.

Combined Financial Statements
with
Independent Auditors' Report

Year Ended June 30, 2017
(With Corresponding Totals for June 30, 2016)

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KMETZ·NUTTALL·ELWELL·GRAHAM, PLLC
Certified Public Accountants

Independent Auditors' Report

To the Boards of Directors
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying combined financial statements of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc. (the "Organization"), which comprise the combined statement of financial position as of June 30, 2017, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc. as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information and Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental and other information including the combining schedule of financial position, the combining schedule of activities and changes in net assets and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, on our consideration of the Organizations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organizations' internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The Organizations' 2016 financial statements were audited by other auditors who expressed an unmodified audit opinion on those audited financial statements in their report dated February 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with those audited financial statements from which it has been derived.

Kmetz, Nuttall, Elwell, Graham

Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants
December 7, 2017

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Hibiscus Children's Center, Inc. and Affiliate
Combined Statement of Financial Position
June 30, 2017
(With corresponding totals as of June 30, 2016)

	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,125,972	$ 318,061
Accounts receivable, net	610,304	395,599
Contributions receivable, net	52,500	11,832
Prepaids and other assets	52,823	4,721
Total current assets	1,841,599	730,213
Other Assets:		
Investments	3,545,308	3,366,064
Contributions receivable, net	120,956	72,456
Deposits	18,765	19,355
Total other assets	3,685,029	3,457,875
Property and equipment, net	2,967,974	3,146,273
Total assets	$ 8,494,602	$ 7,334,361
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 106,893	$ 77,561
Accrued compensation and related expenses	516,931	359,544
Deferred revenue	17,300	3,995
Line of credit	-	83,466
Total current liabilities	641,124	524,566
Total liabilities	641,124	524,566
Net Assets:		
Unrestricted:		
Designated	2,985,685	2,810,317
Undesignated	4,174,643	3,287,928
Total unrestricted	7,160,328	6,098,245
Temporarily restricted	574,758	593,158
Permanently restricted	118,392	118,392
Total net assets	7,853,478	6,809,795
Total liabilities and net assets	$ 8,494,602	$ 7,334,361

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
Combined Statement of Activities and Changes in Net Assets
For the Year ended June 30, 2017
(With corresponding totals as of June 30, 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	All Funds Combined
Public Support and Revenue					
Grants and contracts for operations	$ 3,589,936	$ -	$ -	$ 3,589,936	$ 3,193,154
Program service revenues	1,554,109	-	-	1,554,109	1,616,774
Donations	1,081,940	373,398	-	1,455,338	968,306
Thrift Shop	299,495	-	-	299,495	288,690
Fundraising events	874,431	-	-	874,431	910,554
Less direct costs of events	(173,519)	-	-	(173,519)	(185,548)
Investment income	336,056	-	-	336,056	17,721
Net assets released from restriction	391,798	(391,798)	-	-	-
Total public support and revenue	7,954,246	(18,400)	-	7,935,846	6,809,651
Expenses					
Program services					
Residential programs	3,701,600	-	-	3,701,600	3,851,998
Clinical	1,344,203	-	-	1,344,203	1,587,528
Support for families in crisis	141,326	-	-	141,326	163,360
Total program services	5,187,129	-	-	5,187,129	5,602,886
Thrift Shop	245,662	-	-	245,662	242,252
Fundraising activities	531,926	-	-	531,926	673,527
General and Administrative	927,446	-	-	927,446	1,037,517
Total program and supporting services	6,892,163	-	-	6,892,163	7,556,182
Increase (decrease) in net assets	1,062,083	(18,400)	-	1,043,683	(746,531)
Net assets, beginning of year	6,098,245	593,158	118,392	6,809,795	7,556,326
Net assets, end of year	$ 7,160,328	$ 574,758	$ 118,392	$ 7,853,478	$ 6,809,795

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
Combined Statement of Functional Expenses
For the Year ended June 30, 2017
(With corresponding totals as of June 30, 2016)

	2017								2016
					Supporting Services			Total	All Funds Combined
	Residential Programs	Clinical	Support for Families In Crisis	Total Program Services	Thrift Store	Fundraising	General and Administrative		
Salaries and wages	$ 2,152,249	$ 985,292	$ 82,887	$ 3,220,428	$ 114,048	$ 275,460	$ 670,758	$ 4,280,694	$ 4,563,742
Employee benefits	420,191	144,469	17,175	581,835	22,464	33,162	54,802	692,263	680,384
Payroll taxes	168,342	74,585	5,749	248,676	9,302	19,645	40,319	317,942	381,817
Total compensation and related expenses	2,740,782	1,204,346	105,811	4,050,939	145,814	328,267	765,879	5,290,899	5,625,943
Aid to families	-	-	8,245	8,245	-	-	-	8,245	10,263
Bad debt	-	(31,964)	-	(31,964)	-	-	-	(31,964)	65,682
Depreciation	185,914	4,573	-	190,487	316	-	18,180	208,983	209,706
Donor appreciation	-	-	-	-	-	880	-	880	-
Dues, licenses and subscriptions	7,807	268	1,071	9,146	145	13,244	2,784	25,319	44,570
Equipment rental and maintenance	85,618	15,658	4,350	105,626	3,732	28,483	21,446	159,287	190,269
General operating supplies	180,793	1,740	327	182,860	1,216	10,309	13,744	208,129	234,419
Insurance	108,887	11,481	910	121,278	12,103	5,777	18,994	158,152	176,172
Interest	-	-	-	-	-	-	292	292	16,211
Occupancy	92,208	23,965	6,819	122,992	60,004	26,268	26,409	235,673	241,219
Office expenses and miscellaneous	55,014	20,046	1,647	76,707	8,716	35,952	13,249	134,624	120,334
Printing and distribution	370	344	94	808	6	17,799	1,767	20,380	44,560
Professional services	49,029	57,530	2,273	108,832	3,297	10,078	19,105	141,312	217,053
Program expenses	95,081	(26,050)	-	69,031	-	7,472	-	76,503	135,967
Public education, advocacy and promotion	1,123	-	-	1,123	40	29,495	-	30,658	16,887
Telephone	27,475	18,295	2,967	48,737	2,639	10,861	9,124	71,361	69,014
Training	40,696	9,445	647	50,788	67	2,187	9,370	62,412	31,269
Travel and transportation	30,803	34,526	6,165	71,494	7,567	4,854	7,103	91,018	106,644
Total expenses	$ 3,701,600	$ 1,344,203	$ 141,326	$ 5,187,129	$ 245,662	$ 531,926	$ 927,446	$ 6,892,163	$ 7,556,182

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
Combined Statement of Cash Flows
For the Year ended June 30, 2017
(With corresponding totals as of June 30, 2016)

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 1,043,683	$ (746,531)
Adjustments to reconcile increase (decrease) in net assets to net cash flows provided by (used for) operating activities:		
Depreciation	208,983	209,385
Net realized and unrealized (gain) loss on investments	(355,892)	18,546
(Increase) decrease in:		
Accounts receivable	(214,705)	107879
Contributions receivable	(89,168)	2500
Prepaids and other assets	(47,512)	(94)
Increase (decrease) in:		
Accounts payable	29,332	4,160
Accrued compensation and related expenses	157,387	55,466
Deferred revenue	13,305	-
Net cash provided by (used for) operating activities	745,413	(348,689)
Cash flows from investing activities		
Proceeds from sale of property and equipment	252,880	479,612
Purchase of property and equipment	(279,052)	(138,881)
Proceeds from sale of investments	604,619	479,612
Purchase of investments	(432,483)	(338,321)
Net cash provided by investing activities	145,964	2,410
Cash flows from financing activities:		
Proceeds from line of credit	-	83,466
Payments on line of credit	(83,466)	(400,000)
Net cash used for financing activities	(83,466)	(316,534)
Net increase (decrease) in cash	807,911	(662,813)
Cash, beginning of year	318,061	980,874
Cash, end of year	$ 1,125,972	$ 318,061
Supplemental disclosure of cash flow information:		
Interest paid	$ 292	$ 16,211

See accompanying notes to financial statements.

Note 1 – Description of Organization

Hibiscus Children's Center, Inc. ("Hibiscus") is a Florida not-for-profit corporation organized and licensed by the Florida Department of Children and Families to operate a number of well-defined programs to meet the critical needs of Florida's abused or neglected children and their families. These programs are varied in scope to focus directly on the needs of these troubled children and include high quality residential care, assistance to families in trouble, therapeutic services and support for foster families. Serving principally the Martin, Okeechobee, St. Lucie and Indian River counties of Florida, Hibiscus was incorporated on September 11, 1985 and opened the first shelter in October 1989. Hibiscus provided the following social, health and welfare services to the community during the fiscal year ended June 30, 2017:

Hibiscus Residential Programs provide a safe environment for newborns to 17- year olds with 24-hour supervision, medical and dental care, plus psychological counseling through facilities at its Jensen Beach Shelter and Vero Beach Children's Village. At these facilities, children live in a home-like environment where they can more naturally prepare for successful transition into foster or adoptive homes. Hibiscus is the only licensed residential child caring shelter on the Treasure Coast of Florida. The facilities care for children removed from their families by court order.

Hibiscus Clinical Programs provide a wide range of mental health services to residential and outpatient clients. These services include individual, family and group therapy, psychiatric evaluation, medication management and many more critical services that support children and their families in our community.

Hibiscus Support For Families in Crisis is a nationally recognized abuse prevention program for families who seek help voluntarily offering respite care, counseling, housing and mental health services.

Affiliated Corporation
The Hibiscus Children's Center Foundation, Inc. ("Foundation") was established for the purpose of conducting fundraising activities and for generating and maintaining endowment funds exclusively for Hibiscus. Both Hibiscus and the Foundation are related organizations with a majority of the same board of governors. The accompanying financial statements include the accounts of both entities. Inter-company transactions and balances have been eliminated.

Note 2 – Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting
The accompanying financial statements have been prepared in accordance with generally accepted accounting principles, using the accrual basis of accounting. Assets and related revenues are recorded when earned, and liabilities and related expenses are recognized as incurred. In applying generally accepted accounting principles to program service revenues, the legal and contractual requirements of the individual programs are used as guidance.

Basis of Presentation
Net assets, revenues expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

<u>Permanently Restricted</u>
Represents an endowment whose principal must be maintained by the organization in perpetuity. The income earned on the principal may be used to further the operations of Hibiscus' activities.

<u>Temporarily Restricted</u>
Represents the portion of expendable funds that are restricted by the grantor or donor as to the way they may be utilized. Hibiscus uses this fund primarily to account for grant and donor funds received for specific purposes or for a time in the future.

<u>Unrestricted</u>
Represents the portion of net assets that are not subject to donor restriction and that are available for support of operations.

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions are considered temporarily restricted if a donor imposes a restriction that may be satisfied by the passage of time or the actions of the organization. A permanently restricted contribution stipulates that the contribution be maintained permanently but may allow the organization to use all of part of the income derived from the underlying asset for unrestricted purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash Equivalents
Cash and cash equivalents include cash and investments that are readily convertible into cash and have original maturities of three months or less. Amounts held in individual financial institutions may exceed FDIC insured limits. Uninsured cash equivalent balances were $595,999 and $117,827 at June 30, 2017 and June 30, 2016 respectively. Hibiscus has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Note 2 – Summary of Significant Accounting Policies (continued)

Investments

Debt and equity securities with readily determinable fair values purchased for investment are recorded at fair value based on quoted market prices. Net appreciation (depreciation) in the fair value of investments, which includes realized gains and losses and unrealized appreciation (depreciation) on those investments, is reported in the statement of activities. Cost basis is determined on the date of purchase. Hibiscus, on occasion, receives short-term investments, generally consisting of stocks or bonds, from donors in satisfaction of pledges made. The organization sells the contributed investments as soon as is practical after receipt.

Unconditional Promises to Give

Unconditional promises to give (contributions receivable) are recognized as revenue and as assets in the year the pledge is received. Unconditional promises to give that are scheduled to be collected in the succeeding twelve months are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give that are scheduled to be collected beyond the succeeding twelve months are reflected as long-term promises to give and are recorded at the present value of their net realizable value. Management considers the unconditional promises receivable at year-end to be fully collectible, therefore, an allowance for uncollectible promises has not been recorded.

Property and Equipment

Property and equipment acquisitions greater than $1,000 are capitalized and are stated at cost. Donated property and equipment is recorded at the fair market value at the date of the gift. Depreciation is provided on a straight-line basis over the estimated useful life of the asset, which ranges from 3 - 40 years.

In-kind Contributions

Hibiscus records in-kind contributions of services requiring special skills that create or enhance the value of non-financial assets at their fair market values consistent with those amounts which would be paid for similar products and services.

Contributed Services

While Hibiscus receives a significant amount of donated services from unpaid volunteers that enhance the effectiveness of the programs or assist in fund-raising and administration, these services do not create or enhance non-financial assets nor do they require specialized skills that if not provided by a volunteer would be purchased. Accordingly, while these services contribute to the success of the programs, they do not meet the criteria for recognition under ASC 958-605-25-16 and have not been reflected in the accompanying financial statements.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes

Hibiscus and its affiliate are exempt from federal and state income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code. Neither Hibiscus nor its affiliate Foundation are considered private foundations.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Period Information

The financial statements include certain prior year corresponding totals intended to be read only in relation to the current period presentation. The corresponding information was derived from Hibiscus's audited financial statements for the year ended June 30, 2016, but herein, does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. The prior year corresponding totals may also reflect certain reclassifications of amounts to conform to current year presentations.

Note 3 – Contributions Receivable

Contributions receivable as of June 30, 2017 and 2016, consist of unconditional promises to give in future years as follows:

	2017	2016
Within one year	$ 52,500	$ 11,832
Within one to five years	60,000	23,454
Over five year	60,956	49,002
	$ 173,456	$ 84,288

Note 4 – Accounts Receivable

Accounts receivable of $610,304 at June 30, 2017 and $395,599 at June 30, 2016 consist primarily of vendor contracts from federal and state funding sources and Medicaid. The above amounts are reported net of the allowance of $16,193 at June 30, 2017 and $113,040 at June 30, 2016.

Note 5 – Investments

Investments, carried at fair value based on quoted prices in active markets (all Level 1 Measurements), consist of the following at June 30, 2017:

	Cost	Fair Market Value	Net Unrealized Gains (Losses)
Exchange traded products	$ 3,188,279	$ 3,384,670	$ 196,391
Cash and cash alternatives	140,527	140,527	-
Corporate bonds	20,000	20,111	111
	$ 3,348,806	$ 3,545,308	$ 196,502

Investments, carried at fair value based on quoted prices in active markets (all Level 1 Measurements), consist of the following at June 30, 2016:

	Cost	Fair Market Value	Net Unrealized Gains (Losses)
Exchange traded products	$ 2,553,959	$ 2,986,483	$ 432,524
Cash and cash alternatives	329,539	329,539	-
Corporate bonds	50,000	50,042	42
	$ 2,933,498	$ 3,366,064	$ 432,566

The composition of investment return includes the following for the years ended June 30:

	2017	2016
Interest and dividend earnings	$ 64,421	$ 36,267
Net realized gain (loss) on investments	90,798	(451,112)
Net unrealized gain (loss) on investments	196,502	432,566
	$ 351,721	$ 17,721

Hibiscus maintains investment balances at a brokerage institution insured by the Securities Investor Protection Corporation (SIPC) up to $500,000, including a maximum $250,000 for cash claims. SIPC protection would be triggered only in the event of the financial failure and liquidation of a participating securities affiliate and if Hibiscus' securities were not returned. This protection does not cover investment losses in customer accounts due to market fluctuation or other claims for losses incurred. Investments of $3,404,781 and $3,036,525 at June 30, 2017 and June 30, 2016, respectively, consist of exchange traded products and corporate bonds which are subject to market risk of fluctuations in value.

Note 6 – Fair Value Measurements

ASC topic 820, "Fair Value Measurements and Disclosures", defines fair value, establishes guidelines for measuring fair value, and expands disclosure regarding fair value measurements. ASC Topic 820 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. ASC Topic 820 establishes and prioritizes three levels of inputs that may be used to measure fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

	Level 1	Level 2	Level 3
Exchange traded products	$ 3,384,670	$ -	$ -
Corporate bonds	20,111	-	-
Contributions receivable	-	-	173,456
	$ 3,404,781	$ -	$ 173,456

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

	Level 1	Level 2	Level 3
Exchange traded products	$ 2,986,483	$ -	$ -
Corporate bonds	50,042	-	-
Contributions receivable	-	-	84,288
	$ 3,036,525	$ -	$ 84,288

Note 7 – Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30:

	2017	2016
Land and improvements	$ 156,131	$ 156,131
Building and improvements	3,982,259	4,213,328
Furniture and Equipment	354,496	426,757
Data processing equipment	154,022	185,269
Vehicles and improvements	263,037	264,812
	4,909,945	5,246,297
Accumulated depreciation	(1,941,971)	(2,100,024)
	$ 2,967,974	$ 3,146,273

Note 8 – Line of Credit

Hibiscus Children's Center maintains a line of credit in an amount not to exceed $600,000 with interest at the Wall Street Journal Prime Rate less 0.5%. The line of credit matures on January 15, 2019. At June 30, 2017 and 2016 the outstanding balance due was $0 and $83,466, respectively.

Note 9 – Lease Commitments

Hibiscus rents office space, a vehicle, and various equipment. Rent expense was $172,326 and $206,465 for the years ended June 30, 2017 and June 30, 2016, respectively.

Hibiscus has committed to various long-term vehicle and equipment leases with terms expiring through 2020. Future minimum rental payments under these agreements are as follows:

Fiscal year ending:	
2018	$ 45,336
2019	45,336
2020	$ 16,358

Note 10 – Retirement Plan

Hibiscus Children's Center sponsors a 401(k) plan that covers all employees who have completed their initial 90 day probationary period. Employees deferring compensation into the plan receive up to a 100 percent match, on their first 3% contribution, which is optional at the discretion of the Board of Governors. For the years ended June 30, 2017 and June 30, 2016, the amount of pension expense was $93,827 and $$65,100 respectively.

Note 11 – Unrestricted, Board Designated Net Assets

Unrestricted net assets have been designated by the Board for the following purposes or sources at June 30:

	2017	2016
Board Designated endowment	$2,985,685	$2,810,317
	$2,985,685	$2,810,317

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets relate to contributed assets and related earnings, as applicable, which are restricted by the respective donors for a specified program or purpose. Temporarily restricted net assets are available for the following purposes or sources at June 30:

	2017	2016
Capital funds	$ 279,236	$ 311,830
Residential and other programs	175,644	263,063
Graphic design center	100,000	-
Guilds	19,878	18,265
	$ 574,758	$ 593,158

During the fiscal year, net assets were released from donor/grantor restrictions by incurring expenses satisfying restricted purposes or the passage of time as follows:

	2017	2016
Residential and other programs	$ 352,445	$ 478,305
Capital funds	32,594	-
Martin County Guild	6,166	-
Other	593	-
	$ 391,798	$ 478,305

Note 13 –Endowment

Hibiscus has classified a substantial portion of its financial resources as endowment, which is invested to generate income to be used to support operating and strategic initiatives. These assets include pure endowment funds and funds functioning as endowment. Funds functioning as endowments are organization resources designated by the board as endowments and are invested for long-term appreciation and current income. These assets, however, remain available and may be spent at the board's discretion. Funds functioning as endowments are recorded as unrestricted net assets.

Note 13 –Endowment (continued)

Interpretation of Relevant Law

The State of Florida enacted the Uniform Prudent Management of Institutional Funds Act's (UPMIFA) enhanced disclosures required by Accounting Standards Codification Endowments of Not-for-Profit Organizations, Net Assets Classification of Funds Subject to an Enacted Version of the UPMIFA, and Enhanced Disclosure for All Endowment Funds, which became effective July 1, 2012. The board of directors of the organization is requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary, which is a valid interpretation of UPMIFA.

As a result of this interpretation, the organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted is classified as temporarily restricted until those amounts are appropriated for expenditure by the Organization's board.

Hibiscus considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Hibiscus and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Hibiscus
- The investment policies of Hibiscus

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Hibiscus policies requires to retain as a fund of perpetual duration. If this were to occur, Hibiscus would not expend any monies from the fund until the fair market value of the fund returns to a level above the principal. Hibiscus does not have any deficiencies as of June 30, 2017.

Return Objectives and Risk Parameters

Hibiscus has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operations supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by Hibiscus, the endowment assets are invested in a manner that is intended to produce results that meet or exceed certain relevant market benchmark indexes while assuming a moderate level of investment risk.

Note 13 –Endowment (continued)

Strategies Employed for Achieving Objectives
Hibiscus relies on a total return strategy in which returns are achieved through capital appreciation and current yield (interest and dividends). Hibiscus targets a diversified asset allocation that emphasizes a balance between equities and fixed income securities to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy
Hibiscus's spending policy, as authorized by the Board of Directors, is to consider expected rates of return on investments, restrictions on principal, requirements to support operations and special projects, maintenance of prudent reserves, tax code requirements, and allowances for market and economic uncertainties, as applicable. Transfers to operating accounts from the endowment funds earnings require appropriation by the Board or Executive Committee.

The permanent restrictions on net assets at June 30, 2017 consist of contributed assets restricted by the donors as endowments to provide an ongoing source of revenue for Hibiscus.

Endowment net asset composition as of June 30, 2017 is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment funds and and appreciation	$ 2,985,685	$ -	$ 118,392	$ 3,104,077

Endowment net asset composition as of June 30, 2016 is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment funds and and appreciation	$ 2,810,317	$ 18,432	$ 118,392	$ 2,947,141

Changes in investment net assets, including endowment net assets, from June 30, 2016 through June 30, 2017 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Endowment Total	Unrestricted Investments	Total Investments
Investment net assets at June 30, 2016	$ 2,810,317	$ 18,432	$ 118,392	$ 2,947,141	$ 418,923	$ 3,366,064
Contributions	-	-	-	-	-	-
Net investment activity	295,290	12,359	-	307,649	43,731	351,380
Appropriated for expenditure	(119,922)	(30,791)	-	(150,713)	(21,423)	(172,136)
Investment net assets at June 30, 2017	$ 2,985,685	$ -	$ 118,392	$ 3,104,077	$ 441,231	$ 3,545,308

Note 14 – Support From Other Governmental Agencies

Hibiscus entered into various agreements during the year ended June 30, 2017 with The Children's Services Councils of St. Lucie County and Okeechobee County to receive local matching financial assistance necessary to qualify for federal and state grants. The following represents the revenues, donations and expenditures associated with each program and funding agency:

	Families in Crisis	Clinical	2017	2016
Children's Services Councils grant revenues serving:				
St. Lucie County	$ 131,106	$ -	$ 131,106	$ 134,039
Okeechobee County	-	16,666	16,666	12,500
	131,106	16,666	147,772	146,539
Program expenditures	(141,326)	(1,344,203)	$(1,485,529)	(1,743,624)
Excess from other sources	$ (10,220)	$(1,327,537)	$(1,337,757)	$(1,597,085)

Note 15 – Disclosure of Subsequent Events

Management has evaluated subsequent events through December 7, 2017, the date the financial statements were available to be issued. Management is not aware of any events subsequent to the statement of financial position date which would require additional adjustments to, or disclosure in, the accompanying financial statements.

SUPPLEMENTAL INFORMATION

Hibiscus Children's Center, Inc. and Affiliate
Combining Schedule of Financial Position
June 30, 2017

	Hibiscus Children's Center, Inc.	Hibiscus Children's Center Foundation, Inc.	2017 Combined	2016
Assets				
Current Assets:				
Cash and cash equivalents	$ 575,025	$ 550,947	$ 1,125,972	$ 318,061
Accounts receivable, net	610,304	-	610,304	395,599
Contributions receivable, net	50,000	2,500	52,500	11,832
Prepaids and other assets	52,324	499	52,823	4,721
Due from Foundation (due to Center)	433,640	(433,640)	-	-
Total current assets	1,721,293	120,306	1,841,599	730,213
Other Assets:				
Investments	-	3,545,308	3,545,308	3,366,064
Contributions receivable, net	50,000	70,956	120,956	72,456
Deposits	13,565	5,200	18,765	19,355
Total other assets	63,565	3,621,464	3,685,029	3,457,875
Property and equipment, net	2,967,974	-	2,967,974	3,146,273
Total assets	$ 4,752,832	$ 3,741,770	$ 8,494,602	$ 7,334,361
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable	$ 105,233	$ 1,660	$ 106,893	$ 77,561
Accrued compensation and related expenses	516,931	-	516,931	359,544
Deferred revenue	-	17,300	17,300	3,995
Line of credit	-	-	-	83,466
Total current liabilities	622,164	18,960	641,124	524,566
Total liabilities	622,164	18,960	641,124	524,566
Net Assets:				
Unrestricted:				
Designated	-	2,985,685	2,985,685	2,810,317
Undesignated	4,174,643	-	4,174,643	3,287,928
Total unrestricted	4,174,643	2,985,685	7,160,328	6,098,245
Temporarily restricted	295,522	279,236	574,758	593,158
Permanently restricted	-	118,392	118,392	118,392
Total net assets	4,130,668	3,722,810	7,853,478	6,809,795
Total liabilities and net assets	$ 4,752,832	$ 3,741,770	$ 8,494,602	$ 7,334,361

See accompanying notes to financial statements.

Hibiscus Children's Center, Inc. and Affiliate
Combining Schedule of Activities and Changes in Net Assets
For the Year ended June 30, 2017

	Hibiscus Children's Center, Inc.	Hibiscus Children's Center Foundation, Inc.	2017 Combined	2016
Public Support and Revenue				
Grants and contracts for operations	$ 3,589,936	$ -	$ 3,589,936	$ 3,193,154
Program service revenues	1,554,109	-	1,554,109	1,616,774
Donations	726,466	728,872	1,455,338	968,306
Thrift Shop	299,495	-	299,495	288,690
Fundraising events	-	874,431	874,431	910,554
Less direct costs of events	-	(173,519)	(173,519)	(185,548)
Investment income	(15,603)	351,659	336,056	17,721
Total public support and revenue	6,154,403	1,781,443	7,935,846	6,809,651
Expenses				
Program services				
Residential programs	3,701,600	-	3,701,600	3,851,998
Clinical	1,344,203	-	1,344,203	1,587,528
Support for families in crisis	141,326	-	141,326	163,360
Total program services	5,187,129	-	5,187,129	5,602,886
Thrift Shop	245,662	-	245,662	242,252
Fundraising activities	267,720	264,206	531,926	673,527
General and Administrative	927,446	-	927,446	1,037,517
Total program and supporting services	6,627,957	264,206	6,892,163	7,556,182
Change in net assets before transfers	(473,554)	1,517,237	1,043,683	(746,531)
Transfer from Foundation to Center	1,248,669	(1,248,669)	-	-
Change in net assets after transfers	775,115	268,568	1,043,683	(746,531)
Net assets, beginning of year	3,355,553	3,454,242	6,809,795	7,556,326
Net assets, end of year	$ 4,130,668	$ 3,722,810	$ 7,853,478	$ 6,809,795

See accompanying notes to financial statements.

ADDITIONAL INFORMATION

Hibiscus Children's Center, Inc. and Affiliate
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2017

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant Contract Number	Expenditures
United States Department of Health and Human Services			
Pass Through from Community Based Care:			
Foster care - Title IV-E	93.658	DCBC17-301	$ 320,492
Foster care - Title IV-E	93.658	DCBC17-302	262,128
Foster care - Title IV-E	93.658	N/A	6,177
Foster care - Title IV-E	93.658	N/A	127,519
Foster care - Title IV-E	93.658	N/A	183,201
Foster care - Title IV-E	93.658	N/A	125,473
Foster care - Title IV-E	93.658	N/A	1,839
Foster care - Title IV-E	93.658	N/A	58,564
Foster care - Title IV-E	93.658	N/A	29,787
Foster care - Title IV-E	93.658	N/A	16,135
Social Services Block Grant	93.667	DCBC17-301	226,785
Social Services Block Grant	93.667	DCBC17-302	185,486
Social Services Block Grant	93.667	N/A	4,371
Social Services Block Grant	93.667	N/A	90,234
Social Services Block Grant	93.667	N/A	129,636
Social Services Block Grant	93.667	N/A	68,675
Social Services Block Grant	93.667	N/A	1,301
Social Services Block Grant	93.667	N/A	41,441
Social Services Block Grant	93.667	N/A	21,077
Social Services Block Grant	93.667	N/A	11,417
United States Department of Justice			
Pass Through from Office of the Attorney General:			
Victim of crimes act	16.575	VOCA-2016-Hibiscus-00659	37,068
Victim of crimes act	16.575	VOCA-2015-Hibiscus-00659	26,266
Total Federal Expenditures			$ 1,975,072

See accompanying notes to schedule of expenditures of federal awards.

Hibiscus Children's Center, Inc. and Affiliate
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hibiscus Children's Center, Inc. (Hibiscus)and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B – Contingency

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies. Any disallowed claims, including amounts already received, might constitute a liability of Hibiscus for the return of those funds.

KMETZ·NUTTALL·ELWELL·GRAHAM, PLLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Boards of Directors of
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hibiscus Children's Center, Inc. and Affiliate, Hibiscus Children's Center Foundation, Inc., which comprise the combined statement of financial position as of June 30, 2017, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hibiscus Children's Center, Inc. and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of Hibiscus Children's Center, Inc. and Affiliate's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. Items **2017-03, 2017-04** and **2017-05.**

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hibiscus Children's Center, Inc. and Affiliate's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items **2017-01** and **2017-02**.

Hibiscus Children's Center and Affiliate's Response to Findings

Hibiscus Children's Center and Affiliate's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hibiscus Children's Center and Affiliate's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kmetz, Nuttall, Elwell, Graham

Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

December 7, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Boards of Directors of
Hibiscus Children's Center, Inc. and Affiliate,
Hibiscus Children's Center Foundation, Inc.

Report on Compliance for Each Major Federal Program

We have audited Hibiscus Children's Center, Inc. and Affiliate's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hibiscus Children's Center, Inc. and Affiliate's major federal programs for the year ended June 30, 2017. Hibiscus Children's Center, Inc. and Affiliate's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hibiscus Children's Center, Inc. and Affiliate's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hibiscus Children's Center, Inc. and Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hibiscus Children's Center, Inc. and Affiliate's compliance.

Opinion on Each Major Federal Program

In our opinion, Hibiscus Children's Center, Inc. and Affiliate complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item **2017-01** and **2017-02**. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

Management of Hibiscus Children's Center, Inc. and Affiliate is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hibiscus Children's Center, Inc. and Affiliate's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hibiscus Children's Center, Inc. and Affiliate's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kmetz, Nuttall, Elwell, Graham

Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

December 7, 2017

Hibiscus Children's Center, Inc. and Affiliate
Schedule of Findings and Questioned Costs
Federal Awards Programs
Year Ended June 30, 2017

A. Summary of Audit Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? ___yes **_X_** no
- Significant Deficiency(s) **_X_** yes ___ none reported

Noncompliance material to financial statements noted? ___yes **_X_** no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___ yes **_X_** no
- Significant Deficiency(s) identified ___ yes **_X_** none reported

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **_X_** yes ___ no

The programs tested as major programs include:

Federal Program	Federal CFDA No.
United States Department of Health and Human Services:	
Foster Care - Title IV-E	93.658
Social Services Block Grant	93.667

The threshold for distinguishing Type A and B programs was $750,000 for major federal award programs.

Auditee qualified as low-risk auditee? ___ yes **_X_** no

B. Findings - Financial Statements Audit:

2017-03 *Journal Entry Authorization and Review*

Criteria: Adjusting journal entries should be reviewed by personnel other than the original preparer.

Condition: During our testing, we found certain journal entries posted to the general ledger did not include evidence of approval or review. Journal Entries by nature occur outside the normal transactional processes and thus carry a higher level of risk regarding manipulation and error. The entity procedures for journal entries include a section on the journal entry form which has a line for preparer and reviewer initials. The reviewer was found to be blank on the two items tested. We recommend that that all journal entries be filed with adequate documentation attached with preparer initial and date documented, and that evidence of review and approval be likewise documented on the packet with initials and dates.

Effect: Errors or fraud might not be detected.

Cause: Reviewing adjusting journal entries was not an established policy.

Recommendation: We recommend that that all journal entries be filed with adequate documentation attached, preparer initial and date documented, and reviewer initial and date documented.

Management Response:
Management agrees with auditor's comments that all journal entries should include proper documentation, including preparer and approver signatures and has implemented a revision to the monthly journal entry review and approval process. In October 2016, management took action to minimize the volume of journal entries, with the implementation of the subsidiary accounting software modules Accounts Receivable and Cash Management in FE (Financial Edge/Blackbaud,) whereby transactions are recorded daily rather than at month-end in summary journal entries.

2017-04 *Identification of Donor Restricted and Board Designated Funds*

Criteria: Temporarily restricted net asset activity included projects that were not specified by a donor and board designated funds included projects not under board action.

Condition: Schedules requested for audit on temporarily restricted net asset included projects that were not specified by donor and board designated funds included projects not under board action. The Center did not differentiate properly between donor restrictions, management allocations, and board directed activities.

Effect: Donor and Board restrictions might not be properly released.

Cause: Poor understanding and tracking of donor and Board restrictions.

Recommendation: We recommend that the organization as a whole refresh its understanding of net asset classifications, and of other compliance issues in accounting for the receipt and release of donor restricted funding.

Management Response:

Management agrees with the auditor's recommendation to review and update its net asset classifications, along with donor restricted and Board designated funds, currently classified and routinely reported as restricted revenue and expenditures from FE (Financial Edge/Blackbaud) as projects.

2017-05 *Identification and Maintenance of Endowments*

Criteria: Investment documentation should agree with the underlying source data and not conflict with other sources.

Condition: During audit procedures and inquiries we found that internal identification of the investments identified as endowment was unclear. Calculations to determine the appropriation from endowment were based on the brokerage balance of two accounts. These account balances did not agree to the amounts disclosed as endowment on the June 30, 2016 financial statements. Additionally, amounts disclosed did not agree to general ledger account balances as labeled for endowment in the equity accounts. We found that the endowments constituted a portion of the pooled investment accounts, and was not identified by any brokerage account or combination thereof specifically.

Effect: Endowment investments underlying source data did not agree to related general ledger accounts.

Cause: No clear policy exists to account for the allocation of investment activity of true endowments and that of Board designated endowments.

Recommendation:

We recommend that the Center separate its endowment balances, both permanent and Board designated, into separate brokerage accounts labeled as to the source of the endowment, and to separately accounted for investment activity during the year. In this way, the investment amounts which are subject to state fiduciary requirements regarding true endowments and the related investment activity will be properly accounted for on a regular basis.

Management Response:

Management agrees with the auditor's recommendations that separate brokerage accounts should be established and labeled according to the source of the endowment.

C. Findings and Questioned Costs - Major Federal Award Program:

2017-01 *Training on the Uniform Guidance*

Criteria: Management should be familiar with the Uniform Guidance and its requirements.

Condition: During our inquiries and procedures, it was noted that management was unfamiliar with the Uniform Guidance and its requirements.

Effect: Properly complying with Federal grant compliance requirements requires a strong understanding of the Uniform Guidance and its requirements.

Cause: Management and staff were not aware of the Uniform Guidance and how it applies to grant compliance.

Recommendation: We highly recommend that management obtain Uniform Guidance documentation from federal websites and attend educational programs designed to familiarize the applicable staff regarding the accounting and compliance requirements under the Uniform Guidance.

C. **Findings and Questioned Costs - Major Federal Award Program** (continued)

2017-01 *Training on the Uniform Guidance* (continued)

Management Response:

Management understands the importance of training on the Uniform Guidance and will continue pursuing education and training opportunities to enhance knowledge.

2017-02 *Failure to Submit the Data Collection Form to the Federal Audit Clearinghouse*

Criteria: The Data Collection Form was not completed and filed with the Federal audit clearinghouse for fiscal year's ending 2015 and 2016.

Condition: Noncompliance with Federal requirements.

Effect: Noncompliance with Federal requirements and the Center was not eligible for low-risk status for the current single audit, in accordance with the Uniform Guidance.

Cause: Management and staff were not aware of the filing requirements.

Recommendation: We recommend that management develops a system which will ensure the accurate and timely submission of the Data Collection Form.

Management Response:
Management acknowledges that former auditors failed to submit data collection forms for 2015 and 2016. Management will work in conjunction with current auditors to implement a year-end audit checklist for tracking required future submissions.

KN
EG

Hibiscus Children's Center, Inc. and Affiliate
Summary Schedule of Prior Audit Findings
Year ended June 30, 2017

There were no instances of findings or questioned costs for major federal award programs in prior years.

KMETZ NUTTALL ELWELL GRAHAM, PLLC
Certified Public Accountants

To the Board of Directors and Management
Hibiscus Children's Center, Inc. and Affiliate
Hibiscus Children's Center Foundation, Inc.

In planning and performing our audit of the financial statements of Hibiscus Children's Center, Inc. and Affiliate as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Hibiscus Children's Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Hibiscus Children's Center's internal control to be significant deficiencies:

2017-01 ***Training on the Uniform Guidance***

Criteria: Management should be familiar with the Uniform Guidance and its requirements.

Condition: During our inquiries and procedures, it was noted that management was unfamiliar with the Uniform Guidance and its requirements.

Effect: Properly complying with Federal grant compliance requirements requires a strong understanding of the Uniform Guidance and its requirements.

Cause: Management and staff were not aware of the Uniform Guidance and how it applies to grant compliance.

Recommendation: We highly recommend that management obtain Uniform Guidance documentation from federal websites and attend educational programs designed to familiarize the applicable staff regarding the accounting and compliance requirements under the Uniform Guidance.

Management Response:

Management understands the importance of training on the Uniform Guidance and will continue pursuing education and training opportunities to enhance knowledge.

2017-02 *Failure to Submit the Data Collection Form to the Federal Audit Clearinghouse*

Criteria: The Data Collection Form was not completed and filed with the Federal audit clearinghouse for fiscal year's ending 2015 and 2016.

Condition: Noncompliance with Federal requirements.

Effect: Noncompliance with Federal requirements and the Center was not eligible for low-risk status for the current single audit, in accordance with the Uniform Guidance.

Cause: Management and staff were not aware of the filing requirements.

Recommendation: We recommend that management develops a system which will ensure the accurate and timely submission of the Data Collection Form.

Management Response:
Management acknowledges that former auditors failed to submit data collection forms for 2015 and 2016. Management will work in conjunction with current auditors to implement a year-end audit checklist for tracking required future submissions.

2017-03 *Journal Entry Authorization and Review*

Criteria: Adjusting journal entries should be reviewed by personnel other than the original preparer.

Condition: During our testing, we found certain journal entries posted to the general ledger did not include evidence of approval or review. Journal Entries by nature occur outside the normal transactional processes and thus carry a higher level of risk regarding manipulation and error. The entity procedures for journal entries include a section on the journal entry form which has a line for preparer and reviewer initials. The reviewer was found to be blank on the two items tested. We recommend that that all journal entries be filed with adequate documentation attached with preparer initial and date documented, and that evidence of review and approval be likewise documented on the packet with initials and dates.

Effect: Errors or fraud might not be detected.

Cause: Reviewing adjusting journal entries was not an established policy.

Recommendation: We recommend that that all journal entries be filed with adequate documentation attached, preparer initial and date documented, and reviewer initial and date documented.

Management Response:

Management agrees with auditor's comments that all journal entries should include proper documentation, including preparer and approver signatures and has implemented a revision to the monthly journal entry review and approval process. In October 2016, management took action to minimize the volume of journal entries, with the implementation of the subsidiary accounting software modules Accounts Receivable and Cash Management in FE (Financial Edge/Blackbaud,) whereby transactions are recorded daily rather than at month-end in summary journal entries.

2017-04 *Identification of Donor Restricted and Board Designated Funds*

Criteria: Temporarily restricted net asset activity included projects that were not specified by donor and board designated funds included projects not under board action.

Condition: Schedules requested for audit on temporarily restricted net asset included projects that were not specified by donor and board designated funds included projects not under board action. The Center did not differentiate properly between donor restrictions, management allocations, and board directed activities.

Effect: Donor and Board restrictions might not be properly released.

Cause: Poor understanding and tracking of donor and Board restrictions.

Recommendation: We recommend that the organization as a whole refresh its understanding of net asset classifications, and of other compliance issues in accounting for the receipt and release of donor restricted funding.

Management Response:

Management agrees with the auditor's recommendation to review and update its net asset classifications, along with donor restricted and Board designated funds, currently classified and routinely reported as restricted revenue and expenditures from FE (Financial Edge/Blackbaud) as projects.

2017-05 *Identification and Maintenance of Endowments*

Criteria: Investment documentation should agree with the underlying source data and not conflict with other sources.

Condition: During audit procedures and inquiries we found that internal identification of the investments identified as endowment was unclear. Calculations to determine the appropriation from endowment were based on the brokerage balance of two accounts. These account balances did not agree to the amounts disclosed as endowment on the June 30, 2016 financial statements. Additionally, amounts disclosed did not agree to general ledger account balances as labeled for endowment in the equity accounts. We found that the endowments constituted a portion of the pooled investment accounts, and was not identified by any brokerage account or combination thereof specifically.

Effect: Endowment investments underlying source data did not agree to related general ledger accounts.

Cause: No clear policy exists to account for the allocation of investment activity of true endowments and that of Board designated endowments.

Recommendation:

We recommend that the Center separate its endowment balances, both permanent and Board designated, into separate brokerage accounts labeled as to the source of the endowment, and to separately accounted for investment activity during the year. In this way, the investment amounts which are subject to state fiduciary requirements regarding true endowments and the related investment activity will be properly accounted for on a regular basis.

Management Response:

Management agrees with the auditor's recommendations that separate brokerage accounts should be established and labeled according to the source of the endowment.

2017-06 ***Transmittal of Information for Billing***

Criteria: Client financial and other information should be protected from unauthorized users.

Condition: During our testing, we found that the information used to compile certain grant billing information is sent by email as an unprotected attachment.

Effect: Potentially exposes client financial and other data to unauthorized users.

Cause: Oversight.

Recommendation: Due to the sensitive nature of information which may be contained in such email communications between locations, we recommend that the Center implement protocols for securing Excel and other documents prior to and during transmittal outside of secured networks. This may include, among other things, utilizing protection features which require password authorization to open. Use of such protocols may fulfill some of the Center's responsibilities regarding medical privacy and other regulations.

Management Response:

Management agrees with the auditor's recommendation to implement secure protocols for sensitive electronic data transmissions and has implemented internal changes to include; requiring passwords for sensitive attachments, developing and implementing a plan to transition to an encrypted email system and to utilize a more secure billing platform.

We have already discussed many of these and other comments and suggestions with various Organization personnel. We will be pleased to discuss any of these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

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